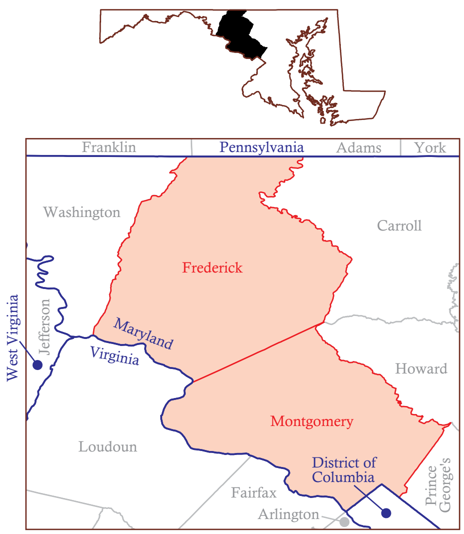
Montgomery-Frederick, Maryland

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of January 1, 2018

PD&R

Housing Market Area



The Montgomery-Frederick Housing Market Area (HMA), which is coterminous with the Silver Spring-Frederick-Rockville, MD Metropolitan Division within the Washington-Arlington-Alexandria, DC-VA-MD-WV Metropolitan Statistical Area, comprises Frederick and Montgomery Counties in Maryland. This report examines each county as a separate submarket. Montgomery County is adjacent to the District of Columbia, and Frederick County is northwest of Montgomery County. The HMA is home to Fort Detrick, a multi-agency site for biomedical research, and the headquarters of Marriott International, Inc., the largest hotel company in the world.

Market Details

Summary

Economy

Nonfarm payrolls in the Montgomery-Frederick HMA increased an average of 0.8 percent annually from 2011 through 2016. The increase accelerated to 1.1 percent during 2017 to 591,500 jobs. Most sectors of the economy added jobs during 2017, and one-third of the growth was in the healthcare and social assistance industry. During the next 3 years, nonfarm payrolls are expected to increase annually by an average of 6,100 jobs, or 1.0 percent.

Sales Market

The sales housing market in the HMA is slightly tight. Sales of existing homes have increased in each submarket in most years since 2009, contributing to a tightening of the sales market since 2010. Conditions are slightly tight in the Montgomery County submarket and balanced in the Frederick County submarket, where single-family construction activity increased 83 percent during 2017. During the 3-year forecast period, demand is expected for 8,225 new homes (Table 1). The 1,630 single-family homes and condominiums under construction and a portion of the 11,000 other vacant units that may reenter the sales market will satisfy some of the forecast demand.

Rental Market

The rental housing market in the HMA is balanced, with a vacancy rate of 5.7 percent. The apartment vacancy rate was 5.2 percent during the fourth quarter of 2017 (Axiometrics, Inc.). Conditions are softer in the Frederick County submarket, with an apartment vacancy rate of 6.8 percent, in part because of a surge in apartment unit completions in the submarket during 2017. Demand is estimated for 6,600 new market-rate rental units in the HMA (Table 1). The 3,190 apartment units under construction will meet some of the demand.

Table 1. Housing Demand in the Montgomery-Frederick HMA During the Forecast Period

	Montgomery-Frederick HMA		Montgomery County Submarket		Frederick County Submarket	
	Sales Units	Rental Units	Sales Units	Rental Units	Sales Units	Rental Units
Total demand	8,225	6,600	4,525	5,700	3,700	900
Under construction	1,630	3,190	960	2,900	670	290

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of January 1, 2018. A portion of the estimated 11,000 other vacant units in the HMA will likely satisfy some of the forecast demand. The forecast period is January 1, 2018, to January 1, 2021.

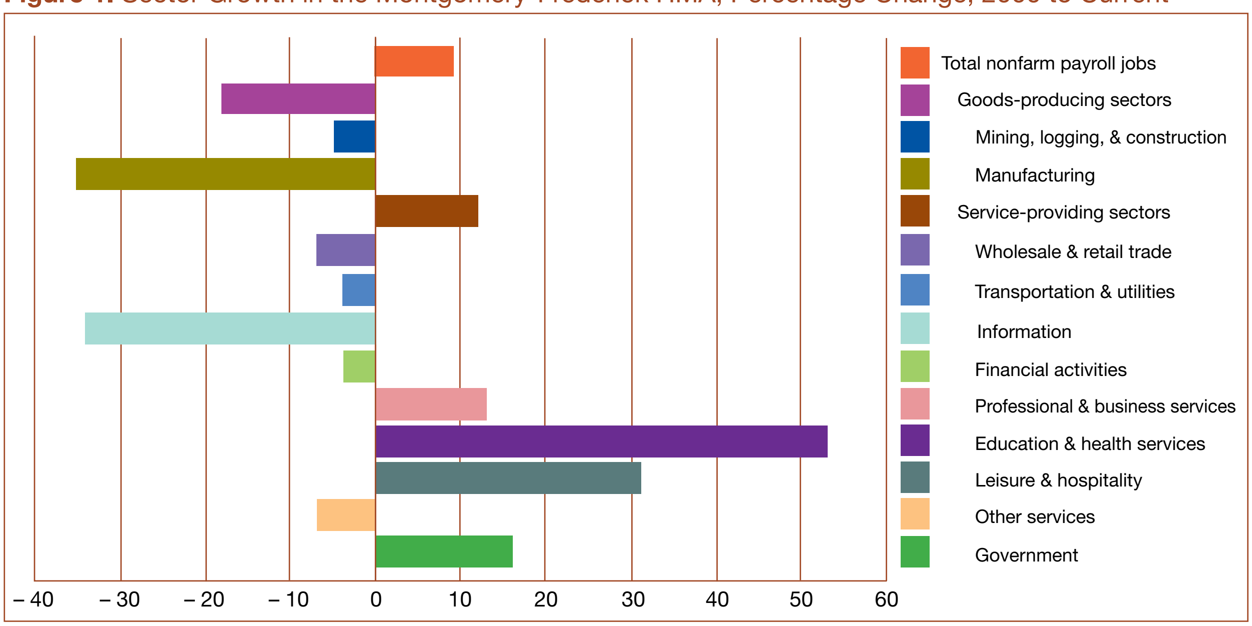
Source: Estimates by analyst

Economic Conditions

The economy of the Montgomery-Frederick HMA expanded during 13 of the past 17 years, mostly because of growth in service-providing sectors. Among all sectors in the HMA, the greatest percentage gain in jobs from 2000 through 2017 was in the education and health services sector, which increased more than 50 percent (Figure 1). From 2001 through 2007, nonfarm payrolls in the HMA increased by an average of 4,500 jobs, or 0.8 percent, annually, and the largest gains were in the education and health services and the professional and business services sectors. After the onset of the national recession in December 2007, nonfarm payrolls in the HMA declined by an average of 5,500 jobs, or 1.0 percent, annually from 2008 through 2010. Job losses in most sectors of the economy during this period more than offset strong gains in the education and health services sector and the federal government subsector. From 2011 through 2016, nonfarm payrolls increased by an average of 4,500 jobs, or 0.8 percent, annually, equaling the pace of growth from 2001 through 2007. The sectors that contributed most to gains from 2011 through 2016 were the education and health services and the leisure and hospitality sectors. Holy Cross Germantown Hospital opened in the Montgomery County submarket in late 2014, adding approximately 600 jobs to the education and health services sector.

Payroll growth accelerated to 1.1 percent in 2017 with the addition of 6,300 jobs (Table 2). The education and health services sector led job growth, increasing by 2,900 jobs, or 3.3 percent. The healthcare and social assistance industry increased by 2,100 jobs, or 2.8 percent, accounting for the majority of growth in the sector and one-third of overall job growth in the HMA. The $21 million James M Stockman Cancer Institute opened in July 2017 in the Frederick County submarket, replacing a smaller, existing cancer therapy center and contributing to growth in the industry.

Figure 1. Sector Growth in the Montgomery-Frederick HMA, Percentage Change, 2000 to Current



Note: Current is based on 12-month averages through December 2017.
Source: U.S. Bureau of Labor Statistics

Table 2. 12-Month Average Nonfarm Payroll Jobs in the Montgomery-Frederick HMA, by Sector

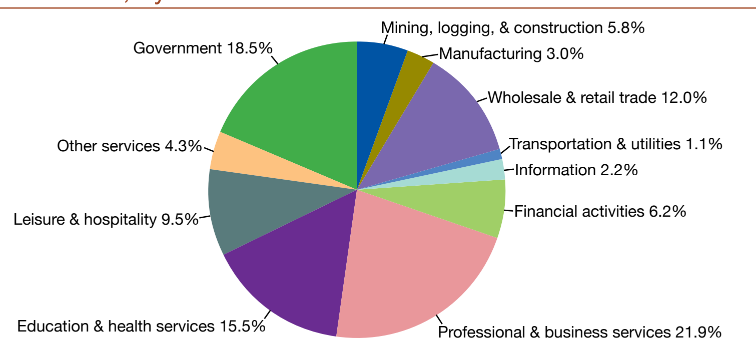
	12 Months Ending		Absolute Change	Percent Change
	December 2016	December 2017		
Total nonfarm payroll jobs	585,200	591,500	6,300	1.1
Goods-producing sectors	51,500	52,300	800	1.6
Mining, logging, & construction	34,000	34,500	500	1.5
Manufacturing	17,500	17,900	400	2.3
Service-providing sectors	533,700	539,200	5,500	1.0
Wholesale & retail trade	71,200	70,900	– 300	– 0.4
Transportation & utilities	6,500	6,400	– 100	– 1.5
Information	13,600	12,900	– 700	– 5.1
Financial activities	36,700	36,900	200	0.5
Professional & business services	128,600	129,700	1,100	0.9
Education & health services	88,800	91,700	2,900	3.3
Leisure & hospitality	55,200	55,900	700	1.3
Other services	25,000	25,200	200	0.8
Government	108,100	109,500	1,400	1.3

Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through December 2016 and December 2017.
Source: U.S. Bureau of Labor Statistics

The professional and business services sector is the largest in the HMA, with nearly 22 percent of total nonfarm payroll jobs (Figure 2). In 2017, the sector increased by 1,100 jobs, or 0.9 percent. The Emmes Corporation, a biotechnology company, opened a new office in the Frederick County submarket in July 2017, adding 50 jobs in the professional and business services sector. Contributing to the overall growth was a gain of 900 jobs, or 3.8 percent, in the computer systems design and related services industry. InfoZen, LLC a provider of information technology services to the federal government, completed a $2 million expansion of its headquarters in the Montgomery County submarket in June 2017, adding approximately 120 jobs in the industry.

The government sector accounts for more than 18 percent of total nonfarm payrolls and is the second largest sector in the HMA. The National Institutes of Health and the U.S. Food and Drug Administration are major employers in the federal government subsector and are among the largest employers in the HMA (Table 3). Fort Detrick in the Frederick County submarket is the site of military medical research, including infectious diseases and combat casualty care. The annual economic impact of Fort Detrick on the state of Maryland is estimated at $7.5 billion (Fort Detrick Installation Management Command). During 2017, the government sector in the HMA increased by 1,400 jobs, or 1.3 percent, with equal gains of 700 jobs, or 1.3 percent, in both the federal and local government subsectors.

Figure 2. Current Nonfarm Payroll Jobs in the Montgomery-Frederick HMA, by Sector



Note: Based on 12-month averages through December 2017.
Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Montgomery-Frederick HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
National Institutes of Health	Government	17,580
Fort Detrick	Government	14,814
U.S. Food and Drug Administration	Government	13,855
Naval Support Activity Bethesda	Government	12,000
Marriott International, Inc.	Leisure & hospitality	5,800
Adventist HealthCare	Education & health services	4,290
Giant, LLC	Wholesale & retail trade	3,150
National Oceanic and Atmospheric Administration	Government	2,920
National Institute of Standards and Technology	Government	2,835
Kaiser Permanente®	Education & health services	2,640

Notes: Excludes local school districts. Count for Fort Detrick includes federal civilian employees, military personnel, private contractors, and students.

Sources: Moody's Analytics, Inc.; Fort Detrick Installation Management Command

The leisure and hospitality sector increased by 700 jobs, or 1.3 percent, during 2017. The accommodation and food services industry accounted for most of the overall gain with an addition of 500 jobs, or 1.1 percent. Marriott International is one of the largest private-sector employers in the HMA with a headquarters in the Montgomery County submarket and several hotels within the HMA. In late 2016, Marriott International completed a $14 billion merger with Starwood Hotels & Resorts, adding approximately 1,400 properties to its worldwide portfolio. In January 2017, Marriott International announced plans to develop a new $600 million corporate campus in the Montgomery County submarket about 5 miles southeast of its current location, retaining approximately 3,500 jobs in the leisure and hospitality sector.

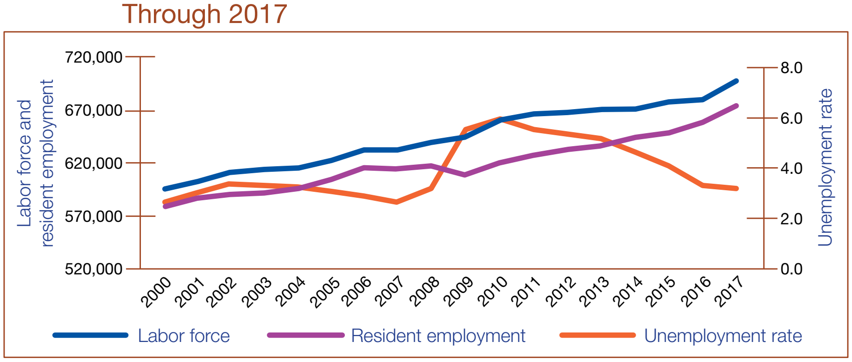
Goods-producing sectors in the HMA increased by 800 jobs, or 1.6 percent, during 2017. Jobs in the mining, logging, and construction sector, although down 5 percent since 2000 because of relatively low levels of single-family home construction activity compared with the early 2000s, increased during 2017 because of the construction of new schools and hospitals. In the Frederick County submarket, the completion of a new Frederick High School in August 2017 and the start of demolition of the existing high school the same month, as well as the start of construction in April 2017 on two new elementary schools, contributed to growth in the sector. In the Montgomery County submarket, the construction of the $404 million, 170-bed Adventist HealthCare Washington Adventist Hospital at White Oak began in April 2017, and an $85 million expansion at Suburban Hospital began in September 2017. Each of the healthcare centers is expected to be complete in 2019. In the manufacturing sector, MedImmune completed a $200 million expansion of its production facility in the Frederick County submarket in early 2017, adding an estimated 300 jobs.

In the five remaining sectors, payroll growth was less substantial or was negative during 2017. The financial activities and other services sectors each increased by 200 jobs, or 0.5 and 0.8 percent, respectively. These gains, however, followed a long period of decline in each sector in most years since 2007. The wholesale and retail trade sector declined by 300 jobs, or 0.4 percent, during 2017, and the transportation and utilities sector decreased by 100 jobs, or 1.5 percent. Jobs in each sector had increased from 2011 through 2015 but declined during each of the past 2 years. Finally, payrolls in the information sector declined by 700 jobs, or 5.1 percent, contributing to the overall 34-percent loss of jobs in the sector since 2000.

The unemployment rate in the HMA declined in each of the past 7 years because of gains in resident employment that outpaced the growth in the labor force (Figure 3). Resident employment has increased each year since 2010, 1 year before the recovery in nonfarm payroll jobs began in the HMA, mostly because of the proximity of the HMA to the District of Columbia and other regions within the Washington, D.C. metropolitan area. The percentages of residents who commute to jobs in the District of Columbia are 16 percent for the HMA as a whole and 33 and 36 percent for Bethesda and Silver Spring, respectively, which are each urbanized regions in the Montgomery County submarket that directly border the national capital (U.S. Census Bureau). Another 15 percent of residents commute to jobs in other areas within the Washington, D.C. metropolitan area. Because of economic expansion in the District of Columbia and the Washington, D.C. metropolitan area since 2010 and job growth in the HMA since 2011, the unemployment rate declined from a peak of 5.9 percent during 2010 to 3.2 percent during 2017. The average during 2017 was only slightly higher than the average of 3.1 percent during the previous expansion period from 2001 through 2007. Tables DP-1 through DP-3 at the end of this report contain economic and demographic data for the HMA and submarkets from 2000 to the current date.

During the 3-year forecast period, nonfarm payrolls are expected to increase by an average of 6,100 jobs, or 1.0 percent, annually. The professional and business services, the education and health services, and the mining, logging, and construction sectors are expected to lead job growth. Two significant projects are expected to add jobs to the mining, logging, and construction sector. The construction of the $5.6 billion commuter rail line, known as the Purple Line, connecting Bethesda and Silver Spring with Prince George's County to the east began in late 2017. The project was estimated to sustain or create 6,000 jobs related to the design and construction of the line and add 400 jobs to the transportation and utilities sector when it is operational in 2022. In addition, the construction of the new corporate campus for Marriott International is expected to begin in late 2018 and be complete in 2022. Job growth is expected to be lowest during 2019 when Discovery, Inc., a media company in the Montgomery County submarket, is expected to close its headquarters and relocate 1,300 employees to New York City and other locations outside the HMA.

Figure 3. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Montgomery-Frederick HMA, 2000 Through 2017



Source: U.S. Bureau of Labor Statistics

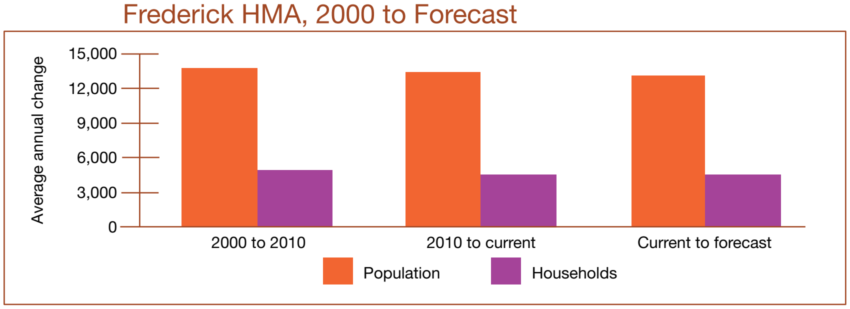
Population and Households

As of January 1, 2018, the population of the Montgomery-Frederick HMA is an estimated 1.31 million. From 2010 to the current date, population growth averaged 13,250 people, or 1.1 percent, annually (Figure 4). From 2000 to 2007, a period of economic expansion in the HMA, population growth averaged 12,500 people, or 1.1 percent, annually (U.S. Census Bureau decennial census counts and population estimates as of July 1). The rate of population growth during this period, however, progressively declined because of rapid increases in home prices that contributed to declining levels of net in-migration. From 2007 to 2010, population growth averaged 16,750 people, or 1.4 percent, annually. Despite the loss of jobs in the HMA, growth was relatively strong during this period because of job gains in the District of Columbia, which was one of the few regions in the nation that added jobs overall from 2008 through 2010. During the 3-year forecast period, population growth is expected to average 13,000 people, or 1.0 percent, annually.

Net in-migration to the HMA has shifted from the Frederick County submarket in the early to mid-2000s to the Montgomery County submarket since 2007. Since 2010, net in-migration to the HMA has averaged 4,975 people annually (Figure 5). From 2000 through 2007, net in-migration was relatively low at an average of 2,825 people annually. In the Montgomery County submarket, where price increases were the greatest, net in-migration averaged 5,550 people annually from 2000 to 2002, and net out-migration averaged 2,500 people annually from 2002 to 2007. All of the net in-migration to the HMA during the 2002-to-2007 period accrued to the Frederick County submarket. From 2007 through 2010, net in-migration to the HMA averaged 6,925 people annually. During this period, an average of 6,300 people annually, or more than 90 percent of the net in-migration into the HMA, settled in the Montgomery County submarket because of the job growth in the District of Columbia. During the forecast period, net in-migration to the HMA is expected to average 5,200 people annually.

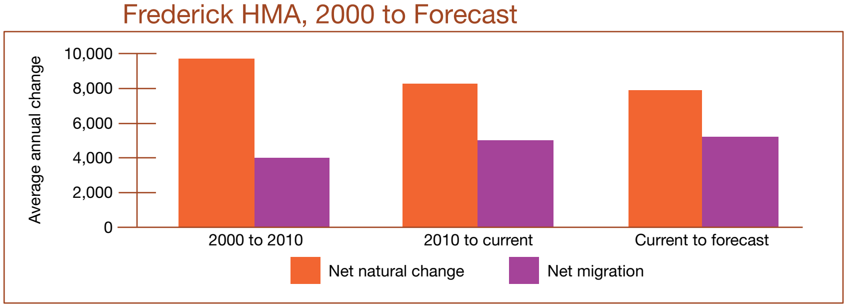
The population of the Montgomery County submarket is an estimated 1.06 million. Since 2010, population growth has averaged 10,750 people, or 1.1 percent, annually. The submarket accounts for more than 80 percent of the population of the HMA and, since 2010, 81 percent of the population growth. The population of the

Figure 4. Population and Household Growth in the Montgomery-Frederick HMA, 2000 to Forecast



Notes: The current date is January 1, 2018. The forecast date is January 1, 2021.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 5. Components of Population Change in the Montgomery-Frederick HMA, 2000 to Forecast



Notes: The current date is January 1, 2018. The forecast date is January 1, 2021.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

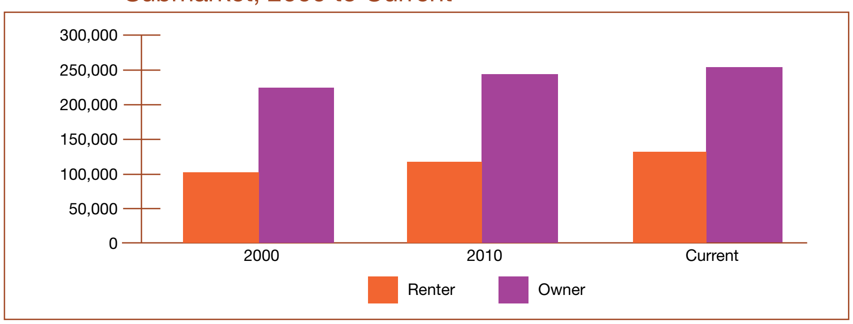
submarket is expected to increase by an average of 9,000, or 0.8 percent, annually during the forecast period.

The population of the Frederick County submarket is an estimated 253,000, reflecting an average annual increase of 2,525, or 1.0 percent, since 2010. More recently, population growth was higher at an average annual increase of 3,425 people, or 1.4 percent, since 2016. The stronger net in-migration during this period contributed to a significant increase in single-family homebuilding activity in the submarket during 2017. Population growth in the Frederick County submarket is expected to average 3,800 people, or 1.5 percent, annually during the forecast period.

The homeownership rate in the HMA is currently estimated at 67.4 percent, down from 69.2 percent in 2010. Within the HMA, the estimated 250,400 owner households in the Montgomery County submarket represent 65.5 percent of total households in the submarket (Figure 6). The estimated 70,350 owner households in the Frederick County submarket represent 75.0 percent of total households in the submarket (Figure 7). The nearly 10-percentage point difference in homeownership rate between the submarkets is partially because of a higher percentage of foreign-born residents in the Montgomery County submarket, where one-third of the population was born outside of the United States compared with less than 12 percent of the population in the Frederick County submarket (2016 American Community Survey [ACS] 1-year data). In the Montgomery County submarket, the homeownership rate for foreign-born residents is 60.0 percent compared with 71.7 percent for residents born in the United States.

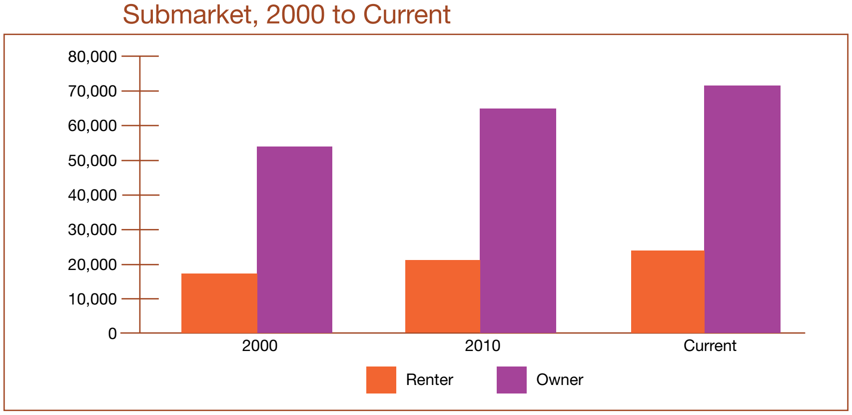
Nearly 16 percent of workers in the Montgomery County submarket use public transportation to get to work, significantly higher than the 2 percent of workers in the Frederick County submarket (2016 ACS 1-year data). Logically, the use of public transportation is higher in the Montgomery County submarket, because Metrorail, the rail transit system in the Washington, D.C. metropolitan area, has several stations in the Montgomery County submarket but none in the Frederick County submarket. The proportion of public transportation commuters in the Montgomery County submarket has nearly doubled from the 8-percent share in 2000, a result of the increased apartment construction near transit stations in

Figure 6. Number of Households by Tenure in the Montgomery County Submarket, 2000 to Current



Note: The current date is January 1, 2018.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 7. Number of Households by Tenure in the Frederick County Submarket, 2000 to Current



Note: The current date is January 1, 2018.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

the submarket. The homeownership rate for workers in the submarket who use public transportation to get to work is 52.4 percent (2016 ACS 1-year data).

An estimated 475,800 households currently reside in the HMA. An estimated 382,100, or 80 percent of households in the HMA, are in the Montgomery County submarket, and an estimated 93,750 are in the Frederick County submarket. Since 2010, the number of households in the HMA has increased by an average of 4,375, or 1.0 percent, annually. The increase from 2000 to 2010 was similar, averaging 4,725 households, or 1.1 percent, annually. Renter households have accounted for an estimated 56 percent of household growth since 2010 compared with 37 percent during the 2000s. Renter households increased since 2010, in part, because of a relatively high number of foreclosures in the HMA in the years following the national housing crisis. In addition, the population employed in the education and health services, the leisure and hospitality, and the mining, logging, and construction sectors, each of which are among the leading growth sectors in the HMA since 2011, tend to rent at higher rates than the overall population (2016 ACS 1-year data). During the forecast period, it is anticipated that the number of households in the HMA will increase by an average of 4,400, or 0.9 percent, annually.

Housing Market Trends

Sales Market—Montgomery County Submarket

The sales housing market in the Montgomery County submarket is slightly tight. The sales vacancy rate is currently estimated at 0.8 percent, down from 1.5 percent in 2010. The supply of existing homes on the market averaged 2.1 months during 2017, down slightly from 2.4 months during 2016 and 3.9 months during 2010 (Bright MLS, Inc.). The supply of new homes (including homes under construction, finished but vacant homes, and model homes) was 12.7 months during 2017, unchanged from the supply during 2016 (Metrostudy, A Hanley Wood Company).

Existing home sales in the Montgomery County submarket have generally increased since 2009. During 2017, approximately 13,950 existing single-family homes, townhomes, and condominiums sold in the submarket (CoreLogic, Inc., with adjustments by the analyst). The number sold during 2017 decreased 1 percent from a year earlier because of a decline in real estate owned (REO) and short sales. By comparison, existing home sales increased an average of 6 percent annually from 17,850 homes sold during 2000 to a peak of 22,250 homes sold during 2004. Home sales subsequently fell an average of 19 percent annually from 2005 through 2008, in part, because of slowing population growth. From 2009 through 2016, existing home sales increased an average of 5 percent annually.

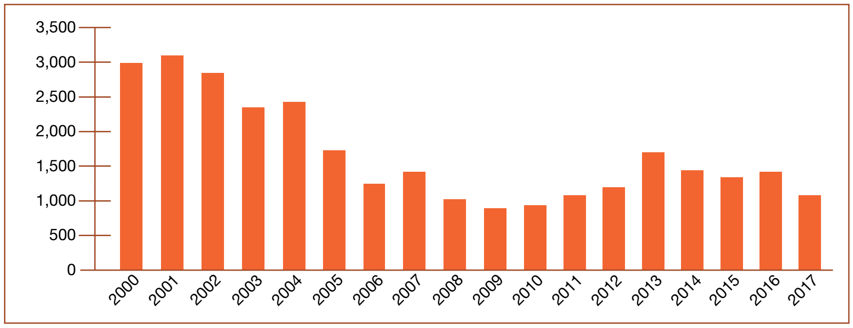
During 2017, the existing home sales price averaged $503,000, up 3 percent from the average during 2016 and an average annual increase of 2 percent compared with the average during 2009. Compared with the Frederick County submarket, the average existing home sales price began to increase 2 years earlier in the Montgomery County submarket because of strong net in-migration from 2008 to 2011. In the early 2000s, the average existing home sales price in the submarket more than doubled from $241,300 during 2000 to $518,200 during 2007, an average annual 12-percent increase. The rapid increase in home prices contributed to net out-migration from the submarket in the mid-2000s, and combined with an economic contraction that began in 2008 and an increase in the sale of foreclosed and REO homes, the average existing home sales price fell an average of 9 percent annually during 2008 and 2009.

Sales of foreclosed and REO homes were 29 percent of existing homes sold in the Montgomery County submarket during 2008 and 2009 (Metrostudy, A Hanley Wood Company). Because average sales prices for REO homes are typically 45 percent less than for nondistressed existing homes, the large share during this period weighed on home prices. During 2017, foreclosure and REO sales were 8 percent of existing home sales in the submarket. Mortgage delinquency has declined in recent years. As of December 2017, 1.2 percent of home loans in the submarket were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into REO status, down from 1.6 percent a year earlier and a peak of 6.1 percent in January 2010 (CoreLogic, Inc.). Mortgage delinquency rates for Maryland and the nation were higher at 3.0 and 2.4 percent, respectively, as of December 2017.

The number of new homes sold in the submarket has not significantly changed during the past 10 years. Sales of new homes totaled 1,200 during 2017, unchanged from the number sold during 2016 (Metrostudy, A Hanley Wood Company). Since 2008, new home sales ranged from a low of 1,000 units sold during 2011, partly because of job losses during the previous 3 years to highs of 1,400 homes sold during 2008 and 2013. Single-family detached homes and townhomes represented approximately 82 percent of new homes sold in the submarket during 2017, and condominiums constituted 18 percent. The sales price for new homes sold in the submarket during 2017 averaged $754,000, up 11 percent from the average during 2016. Sales prices during 2017 for new single-family detached homes, townhomes, and condominiums averaged $812,100, $687,800, and $724,400, respectively.

Homebuilding activity, as measured by the number of single-family homes permitted, increased in the early years of the current economic expansion but generally declined during the past 4 years. Homebuilding activity increased by an average of 210 homes, or 18 percent, annually from 2010 through 2013 but declined by an average of 95 homes, or 6 percent, annually from 2014 through 2016 (Figure 8). During 2017, 1,075 single-family homes were permitted in the Montgomery County submarket, down 23 percent from the number permitted during 2016 (preliminary data). Homebuilding activity in the submarket was much higher in the

Figure 8. Single-Family Homes Permitted in the Montgomery County Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through December 2017.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

early 2000s. From 2000 through 2002, an average of 2,975 single-family homes were permitted annually. Single-family construction activity then declined by an average of 280 homes, or 16 percent, annually from 2003 through 2009.

As of the fourth quarter of 2017, 59 new home subdivisions were actively marketing in the submarket (Metrostudy, A Hanley Wood Company). Subdivisions under construction include Cabin Branch, in Clarksburg in northwest Montgomery County, planned for 1,886 single-family homes and 500 apartments and condominiums. Approximately 530 single-family homes have been built at Cabin Branch since construction began in 2014 (Montgomery County Planning), and prices for single-family homes and townhomes currently start at $490,000 and $380,000, respectively. Construction also began in 2014 at Downtown Crown, planned for 2,250 single-family homes, townhomes, condominiums, and apartments in the city of Gaithersburg; approximately 400 for-sale units have been built through the current date (City of Gaithersburg). Condominiums under construction at Crown include The Copley at Crown, with 128 condominiums starting at $310,000.

During the next 3 years, demand is expected for 4,525 new homes in the submarket (Table 1). The 960 homes currently under construction will meet a portion of the demand. New home sales prices are expected to start at $250,000 (Table 4). A portion of the estimated 8,400 other vacant units in the submarket may reenter the market and satisfy an additional segment of the forecast demand. Table 4 illustrates the estimated demand for new sales housing units in the submarket by price range.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Montgomery County Submarket During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
250,000	349,999	450	10.0
350,000	449,999	900	20.0
450,000	549,999	680	15.0
550,000	649,999	900	20.0
650,000	749,999	680	15.0
750,000	and higher	900	20.0

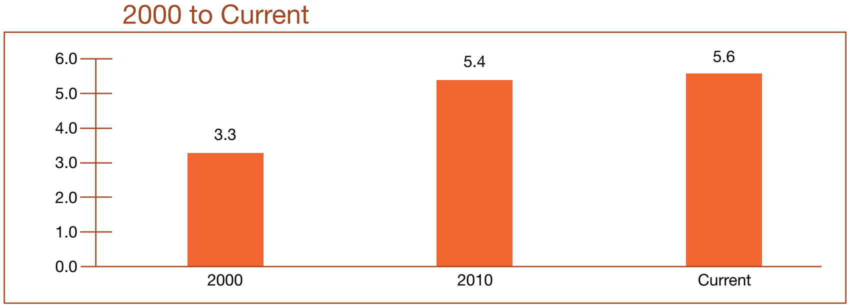
Notes: The 960 homes currently under construction and a portion of the estimated 8,400 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is January 1, 2018, to January 1, 2021.
Source: Estimates by analyst

Rental Market—Montgomery County Submarket

The rental housing market in the Montgomery County submarket is currently balanced. The overall vacancy rate is estimated at 5.6 percent, up from 5.4 percent in 2010 (Figure 9). The overall rate includes single-family homes and mobile homes, which constituted 29 percent of vacant, for-rent units in the submarket during 2016, up from less than 14 percent in 2010 (2010 and 2016 ACS 1-year data). Approximately 24 percent of renter households in the submarket live in single-family homes or mobile homes (2012–2016 ACS 5-year data).

Apartment market conditions in the submarket range from balanced to slightly tight. Of the eight Axiometrics, Inc.-defined market areas within the submarket, apartment vacancy rates during the fourth quarter of 2017 were lowest in the Takoma Park market area at 2.7 percent and highest in the Northeast Montgomery market area at 6.3 percent (Axiometrics, Inc.). In general, apartment vacancy rates declined from a year earlier in market areas closer to the District of Columbia and increased in market areas farther out. In the Bethesda/Chevy Chase and Silver Spring market areas, vacancy rates were 5.2 and 4.1 percent, respectively, during the fourth quarter of 2017, down from 5.4 and 4.3 percent a year earlier. In the Rockville and Kensington/Wheaton market areas, vacancy rates were 5.4 and 5.2 percent, respectively, during the fourth quarter of 2017, up from 5.0 and 4.8 percent a year earlier.

Figure 9. Rental Vacancy Rates in the Montgomery County Submarket, 2000 to Current

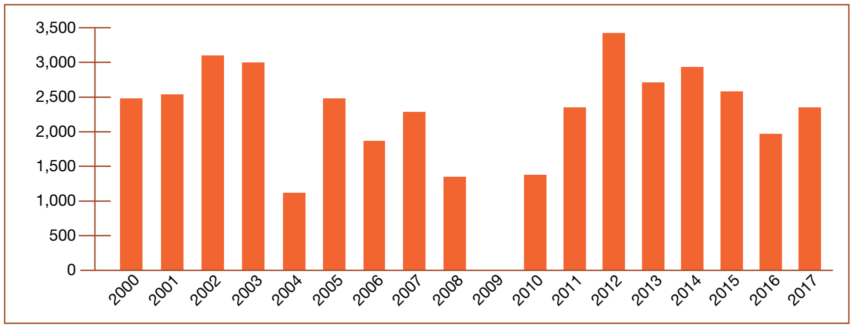


Note: The current date is January 1, 2018.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Asking rents increased or declined 1 percent or less in all market areas in the Montgomery County submarket from a year earlier. In the Silver Spring market area, the asking rent declined 1 percent from the fourth quarter of 2016 to $1,793, in part because of new supply concentrated in the region. Approximately 36 percent of apartments completed in the Montgomery County submarket during 2017 were in the Silver Spring market area. Asking rents increased in all other regions within the Montgomery County submarket and, during the fourth quarter of 2017, ranged from $1,386 in the Takoma Park market area to $2,255 in the Bethesda/Chevy Chase market area.

The level of multifamily construction activity, as measured by the number of multifamily units permitted, in the Montgomery County submarket was up slightly from 2010 through 2017 compared with the level during the early to mid-2000s. During 2017, 2,325 multifamily units were permitted, up 19 percent from 1,950 units permitted in 2016 (preliminary data, with adjustments by the analyst). An average of 2,450 multifamily units were permitted annually from 2010 through 2016, up 10 percent from an average of 2,225 units permitted annually from 2000 through 2008 (Figure 10). Apartments, however, constituted a larger share of units permitted since 2010, but the increase

Figure 10. Multifamily Units Permitted in the Montgomery County Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through December 2017. No multifamily units were permitted in the Montgomery County submarket during 2009.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

in renter household growth in the submarket during the period aided absorption of the new supply. Apartments were 92 percent of multifamily units permitted from 2010 through 2017 compared with 75 percent of units permitted from 2000 through 2008. No multifamily units were permitted in the submarket during 2009. Despite a relatively high level of net in-migration, job losses in the Montgomery-Frederick HMA and tighter lending standards delayed construction of some planned apartment communities.

Apartments completed in the Montgomery County submarket during 2017 include The Henri at Pike & Rose in the Rockville market area, with 264 units starting at $1,400, $1,600, and $1,750 for studio, one-, and two-bedroom units, respectively. Approximately one-half of the units, an average of 19 units a month, at The Henri were absorbed between the start of leasing in May 2017 and the current date (Delta Associates). Two apartment properties—Core and Central—were completed in the Silver Spring market area. Core, with 292 units, was completed in May 2017, and 106 units, or an average of 15 units a month, were absorbed by the current date. Rents for studio, one-, and two-bedroom units at Core start at $1,475, $1,550, and $2,025, respectively. Central was completed in August 2017, with 259 units starting at $1,700, $1,800, and $2,500 for studio, one-, and two-bedroom units, respectively; 54 units, an average of 14 units a month, were absorbed at Central by the current date.

During the next 3 years, demand is expected for 5,700 new market-rate rental units in the Montgomery County submarket (Table 1). The estimated 2,900 apartments currently under construction, all of which are expected to be complete by the end of 2019, will satisfy a portion of the demand. In addition, approximately 250 apartments are expected to begin construction in mid-2018, fulfilling an additional portion of the forecast demand by the end of 2020. Table 5 illustrates the demand for new market-rate rental housing in the submarket by number of bedrooms and rent level.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Montgomery County Submarket During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand
1,300 or more	290	1,350 or more	2,275	1,650 or more	2,575	1,900 or more	570

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 2,900 units currently under construction will likely satisfy some of the estimated demand. The forecast period is January 1, 2018, to January 1, 2021.

Source: Estimates by analyst

Sales Market—Frederick County Submarket

The sales housing market in the Frederick County submarket is currently balanced. Increasing levels of home sales and limited homebuilding activity during the past 8 years contributed to a decline in the sales vacancy rate from 1.8 percent in 2010 to a current estimate of 1.3 percent. The inventory of available homes averaged 2.6 months during 2017, down from 3.1 months during 2016 and 6.2 months during 2010 (Bright MLS, Inc.). The supply of new homes was 7.3 months during 2017, down slightly from 7.5 months during 2016 (Metrostudy, A Hanley Wood Company).

Existing home sales activity in the submarket has increased nearly every year since 2009. Approximately 4,975 existing homes sold during 2017, up 8 percent compared with the number sold during 2014 and an average annual increase of 8 percent from a post-2000 low of 2,525 homes sold during 2008 (CoreLogic, Inc., with adjustments by the analyst). By comparison, home sales increased an average of 11 percent annually from 3,950 homes sold during 2000 to 6,075 homes sold during 2004. Existing home sales subsequently declined an average of 20 percent annually from 2005 through 2008, in part, because of slowing population growth.

During 2017, the average existing home sales price was $296,600, up 5 percent from the average during 2016 and an average annual increase of 4 percent compared with the average during 2011. By comparison, the average home sales price increased 15 percent annually from $149,900 during 2000 to $344,300 during 2006. With the slowdown in population growth and economic contraction from 2008 through 2010, the average sales price declined an average of 7 percent annually from 2007 through 2011.

A high concentration of foreclosed properties contributed to the decline in the existing sales price at the peak of the local economic contraction, but the effect has attenuated in recent years. During 2009 and 2010, sales of foreclosed and REO properties were 49 percent of existing home sales in the Frederick County submarket (Metrostudy, A Hanley Wood Company). Distressed sales declined to 16 percent of existing sales during 2017. Likewise, the percentage of mortgage-delinquent homeowners declined during the past 8 years. The percentage of home loans that were seriously delinquent or had transitioned into REO status in the submarket peaked at 6.9 percent in January 2010 but declined to 2.3 percent in December 2016 and 1.8 percent in December 2017 (CoreLogic, Inc.). Mortgage delinquency rates for

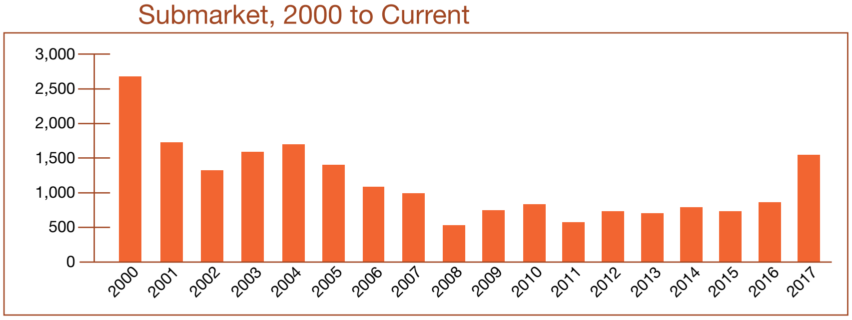
Maryland and the nation were higher at 3.0 and 2.4 percent, respectively, as of December 2017.

Sales of new homes totaled 1,050 during 2017, up 37 percent from the number sold during 2016 (Metrostudy, A Hanley Wood Company). Single-family detached homes and townhomes represented 90 percent of new homes sold in the submarket during 2017, and condominiums were 10 percent. The average sales price for new homes sold in the submarket during 2017 was $417,000, up 4 percent from the average during 2016. Sales prices during 2017 for new single-family detached homes, townhomes, and condominiums averaged $525,000, $360,200, and $241,700, respectively.

Single-family construction activity, as measured by the number of single-family homes permitted, increased significantly during 2017. From 2008 through 2016, an average of 730 single-family homes were permitted annually, less than one-half of the 1,575 homes permitted annually from 2000 through 2007 (Figure 11). During 2017, 1,575 single-family homes were permitted, up 83 percent from the number permitted during 2016 (preliminary data). At the end of 2017, 68 new home subdivisions were actively marketing in the submarket (Metrostudy, A Hanley Wood Company). Subdivisions with the most homes started during 2017 include Lansdale, planned for 1,100 single-family homes and townhomes and with prices currently starting at $430,000 and $310,000, respectively, and Jefferson Place, with 600 townhomes and condominiums with prices currently starting at $255,000. Approximately 350 homes have been built at Lansdale since construction began in 2014, and 250 homes have been built at Jefferson Place since construction began in 2015 (Frederick County Planning and Permitting Division). Construction began in late 2017 on 9 homes at Lake Linganore Town Center, planned for nearly 1,200 single-family homes, townhomes, and multifamily units currently starting at approximately $250,000.

During the 3-year forecast period, demand is expected for 3,700 new owner-occupied homes in the Frederick County submarket (Table 1). The 670 single-family homes and condominiums currently under construction will meet a portion of the demand. New home sales prices are expected to start at $200,000, and the most demand is expected for homes priced from $300,000 to $399,999 (Table 6). A portion of the estimated 2,575 other vacant units in the submarket may reenter the market and satisfy some of the forecast demand.

Figure 11. Single-Family Homes Permitted in the Frederick County Submarket, 2000 to Current



Notes: Includes townhomes. Current includes data through December 2017.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 6. Estimated Demand for New Market-Rate Sales Housing in the Frederick County Submarket During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
200,000	299,999	550	15.0
300,000	399,999	1,475	40.0
400,000	499,999	1,100	30.0
500,000	599,999	370	10.0
600,000	and higher	180	5.0

Notes: The 670 homes currently under construction and a portion of the estimated 2,575 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is January 1, 2018, to January 1, 2021.
Source: Estimates by analyst

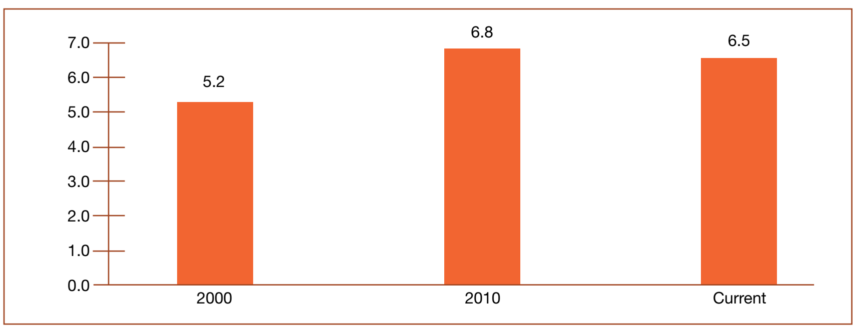
Rental Market—Frederick County Submarket

The rental housing market in the Frederick County submarket is currently slightly soft. The overall rental vacancy rate is estimated at 6.5 percent, down from 6.8 percent in 2010 (Figure 12). Single-family homes and mobile homes represent about 48 percent of renter-occupied units in the submarket (2012–2016 ACS 5-year data). Because of the strengthening sales market conditions since 2010, single-family homes shifted away from the rental market and contributed to the decline in the rental vacancy rate. In 2016, single-family homes and mobile homes were 21 percent of vacant, for-rent units, down from 44 percent in 2010 (2010 and 2016 ACS 1-year data).

The apartment market is also slightly soft. The 430 apartment units completed during 2017 nearly tripled the 160 units completed during 2016, contributing to an increase in the vacancy rate from 6.6 percent during the fourth quarter of 2016 to 6.8 percent during the fourth quarter of 2017 (Axiometrics, Inc.). The asking rent during the fourth quarter of 2017 was $1,260, up 1 percent from a year earlier. By comparison, the asking rent increased an average of 2 percent annually from the fourth quarter of 2009 through the fourth quarter of 2016.

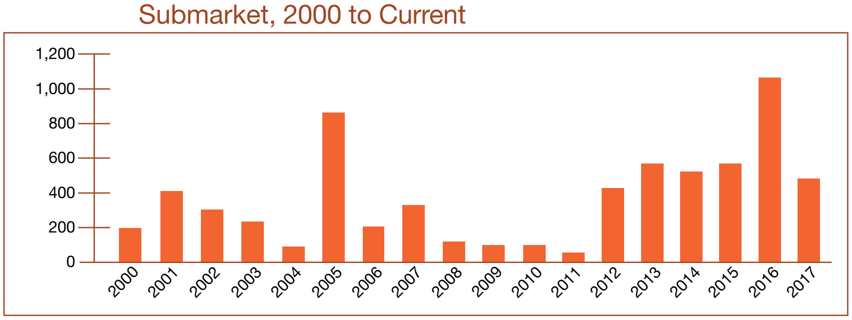
Multifamily construction activity has been relatively strong in the submarket since 2012, although activity during 2017 was down from a 2016 peak. From 2000 through 2007, an average of 330 units were permitted annually (Figure 13). A moratorium placed on new residential developments in unincorporated regions of the submarket from 2008 through mid-2010 limited apartment construction activity to an average of only 90 units permitted annually from 2008 through 2011. From 2012 through 2015, an average of 520 multifamily units were permitted annually. Construction activity doubled the following year to 1,050 units permitted during 2016, including a portion of the 353-unit Urban Green, a portion of the 228-unit Bainbridge Jefferson Place, and the 240-unit The Fred Apartment Homes. The 2017 level of permitting returned to near the average annual level from 2012 through 2015, with 480 units permitted (preliminary data, with adjustments by the analyst). Although condominium construction activity is less than one-half the volume of activity in the Montgomery County submarket, condominiums are a larger share of multifamily units permitted

Figure 12. Rental Vacancy Rates in the Frederick County Submarket, 2000 to Current



Note: The current date is January 1, 2018.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Figure 13. Multifamily Units Permitted in the Frederick County Submarket, 2000 to Current



Notes: Excludes townhomes. Current includes data through December 2017.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

in the Frederick County submarket. Condominiums were 57 percent of multifamily units permitted in the Frederick County submarket from 2000 through 2011 and were 31 percent of units permitted from 2012 through 2017.

Bainbridge Jefferson Place was completed in May 2017 with rents for one-, two-, and three-bedroom apartments starting at $1,350, $1,675, and $2,025, respectively. Between the start of leasing in January 2017 and stabilization of the 228-unit property in October 2017, an average of 20 units were leased each month at Bainbridge Jefferson Place (Delta Associates). Leasing at Urban Green began in mid-2016 and 239 of 353 units in total, an average of 15 units a month, were leased through the current date. In addition to these market-rate properties, 420 income-restricted units at three properties were completed in the submarket during 2017. The Fred Apartment Homes was completed in late 2017 and is currently 26 percent occupied. Rents for one- and two-bedroom apartments at The Fred Apartment Homes, which are restricted to households earning no more than 60 percent of Area Median Income, start at $1,125 and $1,265, respectively.

During the next 3 years, demand is expected for 900 new market-rate rental units in the Frederick County submarket (Table 1). Demand is expected to progressively increase each year after the absorption of units currently leasing up. The 290 units currently under construction will meet nearly 30 percent of this demand. Table 7 illustrates the demand for new market-rate rental housing in the submarket by number of bedrooms and rent level.

Table 7. Estimated Demand for New Market-Rate Rental Housing in the Frederick County Submarket During the Forecast Period

One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand
1,225 to 1,424	290	1,300 to 1,499	310	1,700 or more	90
1,425 or more	70	1,500 or more	130		0
Total	360	Total	450	Total	90

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 290 units currently under construction will likely satisfy some of the estimated demand. The forecast period is January 1, 2018, to January 1, 2021.

Source: Estimates by analyst

Data Profiles

Table DP-1. Montgomery-Frederick HMA, Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total resident employment	581,382	621,789	674,300	0.7	1.2
Unemployment rate	2.7%	5.9%	3.2%		
Nonfarm payroll jobs	543,700	558,500	591,500	0.3	0.8
Total population	1,068,618	1,205,162	1,308,000	1.2	1.1
Total households	394,625	441,886	475,800	1.1	1.0
Owner households	276,175	305,780	320,700	1.0	0.6
Percent owner	70.0%	69.2%	67.4%		
Renter households	118,450	136,106	155,100	1.4	1.7
Percent renter	30.0%	30.8%	32.6%		
Total housing units	407,649	466,041	499,200	1.3	0.9
Owner vacancy rate	1.0%	1.6%	0.9%		
Rental vacancy rate	3.6%	5.6%	5.7%		
Median Family Income	$78,900	$102,700	$110,300	2.7	1.0

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through December 2017. Median Family Incomes are for 1999, 2009, and 2016. The current date is January 1, 2018.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-2. Montgomery County Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	873,341	971,777	1,055,000	1.1	1.1
Total households	324,565	357,086	382,100	1.0	0.9
Owner households	223,017	241,465	250,400	0.8	0.5
Percent owner	68.7%	67.6%	65.5%		
Renter households	101,548	115,621	131,700	1.3	1.7
Percent renter	31.3%	32.4%	34.5%		
Total housing units	334,632	375,905	400,300	1.2	0.8
Owner vacancy rate	0.9%	1.5%	0.8%		
Rental vacancy rate	3.3%	5.4%	5.6%		

Notes: Numbers may not add to totals because of rounding. The current date is January 1, 2018.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-3. Frederick County Submarket Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	195,277	233,385	253,000	1.8	1.0
Total households	70,060	84,800	93,750	1.9	1.3
Owner households	53,158	64,315	70,350	1.9	1.2
Percent owner	75.9%	75.8%	75.0%		
Renter households	16,902	20,485	23,400	1.9	1.7
Percent renter	24.1%	24.2%	25.0%		
Total housing units	73,017	90,136	98,900	2.1	1.2
Owner vacancy rate	1.5%	1.8%	1.3%		
Rental vacancy rate	5.2%	6.8%	6.5%		

Notes: Numbers may not add to totals because of rounding. The current date is January 1, 2018.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census
2010: 4/1/2010—U.S. Decennial Census
Current date: 1/1/2018—Estimates by the analyst
Forecast period: 1/1/2018–1/1/2021—Estimates by the analyst

The metropolitan division and metropolitan statistical area definitions in this report are based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In this analysis conducted by the U.S. Department of Housing and Urban Development (HUD), other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to huduser.gov/publications/pdf/CMARtables_Montgomery_FrederickMD_18.pdf.

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This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to huduser.gov/portal/ushmc/chma_archive.html.